Mainly Employment: Survey-Based News and the Business Cycle

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Surveys contain lots of information that may be otherwise hard to capture. I use data from the University of Michigan Survey of Consumers to study the main driver of business cycles and build a model that can rationalize my empirical findings.

Surprises in the business conditions index series explain a large share of the variance of labor market variables and real macro aggregates. They generate a non-inflationary business cycle in which unemployment falls, output, consumption, investment, interest rates, and vacancies all rise. Inflation and measured Total Factor Productivity do not respond instead.

The main driver of changes in the business conditions index are reports of changes in labor market conditions.

I then build a New-Keynesian model with search-and-matching frictions that can reproduce the comovements I estimate empirically. Modeling unemployment risk and a realistic elasticity of vacancy creation to underlying economic conditions is central for the model to generate the observed dynamics in response to shocks to job separation and to the cost of vacancy opening.